



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUDGET OFFICE
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Memorandum

To: The Honorable Lincoln Almond
Governor

The Honorable John B. Harwood
Speaker of the House

The Honorable Paul S. Kelly
Senate Majority Leader

From: Stephen P. McAllister, CPA
Executive Director/Budget Officer

Michael F. O'Keefe
House Fiscal Advisor

Russell C. Dannecker
Senate Fiscal Advisor

Date: June 25, 1999

Subject: May 1999 Revenue Estimating Conference

The Consensus Revenue Estimating Conference convened on May 10, 1999. The conference is required to meet at least twice annually to forecast current and budget year revenue estimates. The conference members are the Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor ("Principals"). The estimates adopted by the Conference are based upon collection trends through the month ended April 30, 1999, as well as current law and the economic forecast. The FY 1999 revenue estimate was revised downward by \$1.4 million, and the FY 2000 estimate was revised upward by \$100.4 million from those adopted by the Conference in November 1998.

The Economic Forecast

During the 1997-1998 legislative session, the statutes governing the Revenue Estimating Conference were amended. Beginning in Fiscal Year 1999, the statute requires that the principal members "shall adopt a consensus forecast upon which to base revenue estimates." (R.I.G.L. 35-16-5 (e)).

The principals met with economists on May 3, 1999 to develop the consensus forecast. Testimony was received regarding the national and state economic outlook by Steven Cochrane of Regional Financial Associates, Rachael Chioino of Standard and Poor's DRI, and Leonard Lardaro, of The New England Economic Project.

The economic outlook provided by the economists for Rhode Island was more optimistic than the November forecast revealed. RFA and DRI acknowledged the possibility that the *positive* impacts of the global economic crisis, such as low interest rates and low commodity prices (in particular oil prices) on the United States may have been underestimated in the past. Consumer confidence, (which translates into consumer spending) although subject to fluctuation, has remained quite strong. All three economists noted that consumer spending has been a major driving force in the economy of late. Also noteworthy is the fact that Rhode Island's household balance sheets are improving due to increasing home values.

Though there was a small disparity among the forecasts, the principals adopted a forecast characterized by low consumer price inflation, continued employment growth, and continued personal income growth. The following table shows the final adopted economic consensus forecast.

The Consensus Economic Forecast			
	FY 1998	FY 1999	FY 2000
Total Employment (in thousands)	454.0	462.1	467.0
Annual Percentage Change	2.0%	1.8%	1.1%
Total Personal Income (in billions)	25.9	27.1	28.3
Annual Percentage Change	4.9%	4.6%	4.4%
Consumer Price Index			
Fiscal Year Annual Percentage Change	1.8%	1.7%	2.2%
Calendar Year Annual Percentage Change	1.6%	1.9%	2.5%

Current Year Revenue Estimates

FY 1999 revenues are expected to be 2.0 percent greater than those collected in FY 1998. The May estimate for the current year was revised downward by \$1.4 million from the November 1998 estimate.

Total taxes in FY 1999 are expected to rise by 2.6 percent over the prior fiscal year, largely due to growth in personal income and sales taxes. Personal income taxes are expected to total \$758.2 million in FY 1999. Annual growth of 4.9 percent, or \$35.4 million is expected. The income tax estimate includes the second phase of the tax rate reduction (to 26.5 percent of federal liability) which became effective on January 1, 1999.

Significant negative revisions were made to the several of the general business taxes. The business corporations tax was reduced by \$7.5 million, and is expected to yield a total of \$62.5 million for the year. Insurance taxes were also revised by negative \$7.6 million, with total anticipated collections of \$33.7 million. Revisions in these taxes were made based upon year to date collections, which reflect significant refunds. The insurance tax, which is based upon gross premiums, is partially impacted by a rate reduction to automobile insurance premiums.

Small increases were made to the estimates for franchise taxes (\$0.6 million) and public utility gross earnings taxes (\$1.2 million) for total expected collections of \$7.9 million and \$63.5 million, respectively. The November estimates for taxes on financial institutions, (negative \$0.8 million) bank deposits (negative \$0.9 million) and health care providers (\$24.2 million) were unchanged.

Expected sales tax collections remain at \$565.0 million, or 6.5 percent annual growth. Motor Vehicle taxes are expected to yield \$41.4 million, and motor fuel taxes are expected to yield \$850,000. Alcohol tax collections are expected to grow by 4.8 percent over the year, for a total of \$9.0 million.

The cigarette tax estimate was dramatically reduced (by \$4.1 million) from the November estimate. Immediately following the tobacco settlement, which was announced in late November of 1998, a price increase was instituted by tobacco manufacturers, which has had a negative effect on consumption. Total collections of \$62.0 million are expected, or a decrease of 3.4 percent from FY 1998.

Gains are expected in the "Other Taxes" category. Inheritance tax estimates were increased by \$3.0 million, for an expected total of \$30.0 million. Racing and athletics and realty transfer taxes are expected to garner \$5.9 million, and \$2.5 million, respectively.

Departmental receipts, which include licenses and fees, fines and penalties, sales and services, and miscellaneous revenues collected by individual departments, are expected to total \$196.2 million in the current fiscal year. The total reflects an increase of \$5.0 million, due in large part to substantial gains in income on investments.

The gas tax transfer to the general fund was increased by \$0.3 million, for a total of \$20.5 million. Lottery receipts are expected to garner \$133.5 million. The revised estimate reflects an increase of \$11.7 million to the November estimate, or annual growth of 16.0 percent, due to strong year to date receipts. Unclaimed property receipts are expected to total \$4.5 million.

"Other Miscellaneous" receipts are expected to total \$14.5 million. The current estimate is \$6,552,419 lower than the November estimate in large part due to the expectation that the estimated \$6.0 million in employee medical recovery is not likely to occur until FY 2000; originally the \$6.0 million recovery was expected to occur in FY 1999. The components in this category include: airport lease payments (\$3.2 million); airport lease offsets for underground storage tank remediation (negative \$1.9 million); addendum to the airport lease contract (negative \$0.1 million); earnings on bond proceeds (\$7.5 million); Blue Cross Settlement (\$0.5 million); interyear adjustments (\$1.3 million); and Resource Recovery Corporation transfer to the general fund (\$4.0 million).

Budget Year (FY 2000) Revenue Estimates

FY 2000 revenues are expected to be 4.7 percent greater than those collected in FY 1999. The May estimate for the budget year was revised upward by \$100.4 million from the November 1998 estimate. The substantial increase is due in large part to the inclusion of tobacco settlement proceeds of \$63.9 million and increased lottery transfers, which are expected to total \$146.4 million.

Total taxes in FY 2000 are expected to rise by 4.1 percent over the prior fiscal year, largely due to growth in personal income and sales taxes. Personal income taxes are expected to total \$787.5 million in FY 1999. Annual growth of 3.9 percent, or \$29.3 million is expected. The income tax estimate includes the third phase of the tax rate reduction (to 26.0 percent of federal liability) which will become effective on January 1, 2000.

Large negative revisions were also made in the budget year to the business corporations and insurance taxes, reflecting FY 1999 collections experience. The business corporations tax is was reduced by \$7.5 million, and is expected to yield a total of \$63.3 million for the year. Insurance taxes were revised downward by \$6.1 million, with total anticipated collections of \$35.5 million.

Increases consistent with those made to the FY 1999 estimates for franchise taxes (\$0.6 million) and public utility gross earnings taxes (\$1.2 million) were made to FY 2000, for total expected collections of \$7.9 million and \$63.5 million, respectively. The November estimates for taxes on financial institutions, bank deposits, and health care providers were unchanged, with respective collections of \$7.0 million, \$0.7 million, and \$24.9 million.

The sales tax estimate for FY 2000 was increased by \$9.5 million, anticipating an annual increase of \$28.5 million, or growth of 5.0 percent. Total collections are expected to reach 593.5 million. Motor Vehicle taxes are expected to yield \$41.8 million, and motor fuel taxes are expected to yield \$850,000. Alcohol tax collections are expected to remain at the FY 1999 level of \$9.0 million.

Cigarette tax collections are expected to further decline by \$2.2 million or 3.5 percent, due to a continued decline in consumption. Total collections of \$59.8 million are expected in the budget year.

Inheritance tax and racing and athletics tax collections are expected to remain at FY 1999 levels of \$30.0 million and \$5.9 million, respectively. Realty transfer taxes are estimated to total \$2.1 million, or an annual decline of 16.0 percent. The FY 1999 Appropriations Act included a provision whereby local communities would retain all realty transfer taxes, except the distressed community portion, which is remitted to the state, effective in FY 1999. The FY 2000 estimate reflects this change, which is based upon the FY 1999 estimate, adjusted for collections timing issues and small anticipated growth.

Departmental receipts are expected to total \$153.2 million in FY 2000. The total reflects a decrease of \$43.0 million, due to the sunset of the hospital license fee, (\$37.4 million) conversion of inspection sticker fees to restricted receipts, (\$4.4 million) and fewer gains in income on investments (\$1.0 million).

The gas tax transfer to the general fund was increased by \$0.2 million from the November 1998 estimate and is expected to garner \$16,135,000. The FY 2000 estimate is based upon an annual decrease of \$4,412,000, due to the transfer of the value of one additional cent of the total gasoline tax to the Department of Transportation. The FY 2000 estimate for lottery transfers was increased to \$146.4 million, or annual growth of 9.7 percent. Unclaimed property receipts are expected to remain unchanged from those collected in FY 1999, or a total \$4.5 million.

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"Other Miscellaneous" receipts are expected to total \$76.5 million. The current estimate reflects an increase of \$71.8 million from the November estimate. Most of the difference is attributable to inclusion of \$63.9 million in proceeds from the tobacco settlement. Additionally, \$6.0 million in employee medical recovery is expected to be received in FY 2000 rather than FY 1999. Other components of this category include the airport lease payment (\$3.3 million); anticipated reimbursement from the Underground Storage Tank Fund for airport and state tank expenditures (\$1.5 million and \$0.5 million, respectively); an anticipated adjustment to the airport lease settlement (negative \$0.1 million); and interyear adjustments (\$1.3 million). Earnings on bond proceeds, estimated at \$6.0 million in FY 2000, will no longer be included in this category as general revenues, but rather will be deposited into a sinking fund for debt defeasance in accordance with the provisions of the FY 1999 Appropriations Act.

SPM:S99-92

May 1999 Revenue Estimating Conference Summary

	FY 1998	Growth	FY 1999	Growth	FY 2000	Growth
	Audited		May REC		May REC	
Personal Income Tax	722,809,063	14.3%	758,200,000	4.9%	787,500,000	3.9%
General Business Taxes						
Business Corporations	71,541,900	5.6%	62,500,000	-12.6%	63,300,000	1.3%
Franchise	7,314,729	6.5%	7,900,000	8.0%	7,900,000	0.0%
Public Utilities Gross Earnings	62,330,189	-10.2%	63,500,000	1.9%	63,500,000	0.0%
Financial Institutions	(1,157,614)	-	(800,000)	-	7,000,000	-
Insurance Companies	41,817,850	26.6%	33,700,000	-19.4%	35,500,000	5.3%
Bank Deposits	1,387,514	-66.0%	(900,000)	-	700,000	-
Health Care Provider Assessment	23,546,817	4.8%	24,200,000	2.8%	24,900,000	2.9%
Sales and Use Taxes						
Sales and Use	530,649,386	8.5%	565,000,000	6.5%	593,500,000	5.0%
Motor Vehicle	40,328,576	9.9%	41,400,000	2.7%	41,800,000	1.0%
Motor Fuel	4,947,942	5.2%	850,000	-82.8%	850,000	0.0%
Cigarettes	64,188,077	17.0%	62,000,000	-3.4%	59,800,000	-3.5%
Alcohol	8,586,546	2.6%	9,000,000	4.8%	9,000,000	0.0%
Controlled Substances	7	-78.1%	-	-	-	-
Other Taxes						
Inheritance and Gift	31,524,415	161.1%	30,000,000	-4.8%	30,000,000	0.0%
Racing and Athletics	5,979,095	5.9%	5,900,000	-1.3%	5,900,000	0.0%
Realty Transfer	6,428,808	26.4%	2,500,000	-61.1%	2,100,000	-16.0%
Total Taxes	1,622,223,300	10.2%	1,664,950,000	2.6%	1,733,250,000	4.1%
Departmental Receipts						
Licenses and Fees	101,455,524	-2.4%	102,000,000	0.5%	60,400,000	-40.8%
Fines and Penalties	25,514,709	12.9%	26,200,000	2.7%	25,800,000	-1.5%
Sales and Services	30,422,087	-19.9%	32,000,000	5.2%	32,000,000	0.0%
Miscellaneous	32,873,694	45.0%	36,000,000	9.5%	35,000,000	-2.8%
Total Departmental Receipts	190,266,014	1.6%	196,200,000	3.1%	153,200,000	-21.9%
Taxes and Departmentals	1,812,489,314	9.2%	1,861,150,000	2.7%	1,886,450,000	1.4%
Other Sources						
Gas Tax Transfer	30,412,271	-19.4%	20,547,000	-32.4%	16,135,000	-21.5%
Other Miscellaneous	32,721,004	-19.7%	14,514,491	-55.6%	76,466,412	426.8%
Lottery	115,071,622	15.0%	133,500,000	16.0%	146,400,000	9.7%
Unclaimed Property	3,693,926	-26.6%	4,500,000	21.8%	4,500,000	0.0%
Other Sources	181,898,823	-0.9%	173,061,491	-4.9%	243,501,412	40.7%
Total General Revenues	1,994,388,137	8.2%	2,034,211,491	2.0%	2,129,951,412	4.7%

**May 1999 Revenue Estimating Conference
FY 1999 Comparison**

	FY 1999	FY 1999	FY 99
	November REC	May REC	May - November
Personal Income Tax	759,800,000	758,200,000	(1,600,000)
General Business Taxes			
Business Corporations	70,000,000	62,500,000	(7,500,000)
Franchise	7,300,000	7,900,000	600,000
Public Utilities Gross Earnings	62,300,000	63,500,000	1,200,000
Financial Institutions	(800,000)	(800,000)	0
Insurance Companies	41,300,000	33,700,000	(7,600,000)
Bank Deposits	(900,000)	(900,000)	0
Health Care Provider Assessment	24,200,000	24,200,000	0
Sales and Use Taxes			
Sales and Use	565,000,000	565,000,000	0
Motor Vehicle	40,700,000	41,400,000	700,000
Motor Fuel	700,000	850,000	150,000
Cigarettes	63,700,000	62,000,000	(1,700,000)
Alcohol	8,600,000	9,000,000	400,000
Controlled Substances	0	0	0
Other Taxes			
Inheritance and Gift	27,000,000	30,000,000	3,000,000
Racing and Athletics	6,000,000	5,900,000	(100,000)
Realty Transfer	2,400,000	2,500,000	100,000
Total Taxes	1,677,300,000	1,664,950,000	(12,350,000)
Departmental Receipts			
Licenses and Fees	102,000,000	102,000,000	0
Fines and Penalties	26,200,000	26,200,000	0
Sales and Services	30,000,000	32,000,000	2,000,000
Miscellaneous	32,967,000	36,000,000	3,033,000
Total Departmental Receipts	191,167,000	196,200,000	5,033,000
Taxes and Departmentals	1,868,467,000	1,861,150,000	(7,317,000)
Other Sources			
Gas Tax Transfer	20,250,000	20,547,000	297,000
Other Miscellaneous	21,066,910	14,514,491	(6,552,419)
Lottery	121,800,000	133,500,000	11,700,000
Unclaimed Property	4,000,000	4,500,000	500,000
Other Sources	167,116,910	173,061,491	5,944,581
Total General Revenues	2,035,583,910	2,034,211,491	(1,372,419)

**May 1999 Revenue Estimating Conference
FY 2000 Comparison**

	FY 2000	FY 2000	Difference
	November REC	May REC	May - November
Personal Income Tax	780,700,000	787,500,000	6,800,000
General Business Taxes			
Business Corporations	70,800,000	63,300,000	(7,500,000)
Franchise	7,300,000	7,900,000	600,000
Public Utilities Gross Earnings	62,300,000	63,500,000	1,200,000
Financial Institutions	7,000,000	7,000,000	0
Insurance Companies	41,600,000	35,500,000	(6,100,000)
Bank Deposits	700,000	700,000	0
Health Care Provider Assessment	24,900,000	24,900,000	0
Sales and Use Taxes			
Sales and Use	584,000,000	593,500,000	9,500,000
Motor Vehicle	40,800,000	41,800,000	1,000,000
Motor Fuel	735,000	850,000	115,000
Cigarettes	63,700,000	59,800,000	(3,900,000)
Alcohol	8,600,000	9,000,000	400,000
Controlled Substances	0	0	0
Other Taxes			
Inheritance and Gift	27,000,000	30,000,000	3,000,000
Racing and Athletics	6,000,000	5,900,000	(100,000)
Realty Transfer	1,800,000	2,100,000	300,000
Total Taxes	1,727,935,000	1,733,250,000	5,315,000
Departmental Receipts			
Licenses and Fees	63,300,000	60,400,000	(2,900,000)
Fines and Penalties	25,800,000	25,800,000	0
Sales and Services	30,000,000	32,000,000	2,000,000
Miscellaneous	32,967,000	35,000,000	2,033,000
Total Departmental Receipts	152,067,000	153,200,000	1,133,000
Taxes and Departmentals	1,880,002,000	1,886,450,000	6,448,000
Other Sources			
Gas Tax Transfer	15,925,000	16,135,000	210,000
Other Miscellaneous	4,634,355	76,466,412	71,832,057
Lottery	125,200,000	146,400,000	21,200,000
Unclaimed Property	3,800,000	4,500,000	700,000
Other Sources	149,559,355	243,501,412	93,942,057
Total General Revenues	2,029,561,355	2,129,951,412	100,390,057